



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

September 29, 2008

Limited Internal Control and Compliance Review Management Report

Honorable Lester Spell, Jr., D.V.M., Commissioner
Mississippi Department of Agriculture and Commerce
P. O. Box 1609
Jackson, Mississippi 39215

Dear Dr. Spell:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Department of Agriculture and Commerce for the Fiscal Year 2007. In these findings, the Auditor's Office recommends the Mississippi Department of Agriculture and Commerce:

1. Strengthen controls over the Fruit and Vegetable Revolving Fund;
2. Strengthen controls over bank accounts;
3. Reconcile collateral sufficiency analysis reports to agency records;
4. Deposit funds to bank accounts promptly and transfer funds to the state treasury timely;
5. Perform audit procedures for the Fruit and Vegetable Revolving Fund; and
6. Ensure bank accounts are properly authorized and maintained.

Please review the recommendations and submit a plan to implement them by October 24, 2008. The enclosed findings contain more information about our recommendations.

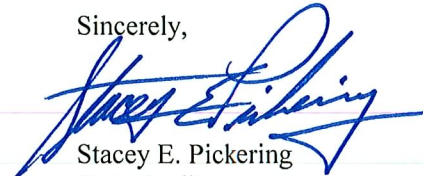
During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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I hope you find our recommendations enable the Mississippi Department of Agriculture and Commerce to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Agriculture and Commerce throughout the review. If you have any questions or need more information, please contact me.

Sincerely,



Stacey E. Pickering
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Department of Agriculture and Commerce for the year ended June 30, 2007. The Office of the State Auditor's staff members participating in this engagement included Vicki Alvey, Johnnie Davenport, Jeremy Ashley, Tyler Berch, Amanda Britt, Christopher Rand and Josh Shoemaker.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. In performing our review, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a significant deficiency under standards established by the American Institute of Certified Public Accountants. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. This matter is noted under the heading **SIGNIFICANT DEFICIENCY**.

In addition, we noted other matters involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **OTHER CONTROL DEFICIENCIES** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAWS AND REGULATIONS**.

SIGNIFICANT DEFICIENCY

Controls over the Fruit and Vegetable Revolving Fund Should Be Strengthened

Finding:

The Mississippi Department of Agriculture and Commerce administers the Fruit and Vegetable Revolving Fund. This fund is used primarily for quick payments to farmers for vegetable fruit crops processed and sold through vegetable processing plants associated with the Mississippi Department of Agriculture and Commerce and the Mississippi State Extension Service. During our review of the Fruit and Vegetable Revolving Fund, we noted a lack of segregation of duties. One person receives the checks in the mail, prepares the deposit slips, makes the deposits, prepares payments, records payments and receivables to the records and reconciles the bank statements. In addition, we noted that when the mail is opened the checks received are not recorded to a daily cash receipts log.

Good internal controls dictate the use of a cash receipt log and proper segregation of duties over transactions. Failure to properly segregate duties and assert immediate control over receipts could allow errors or fraud to occur without being detected promptly.

Recommendation:

We recommend the Mississippi Department of Agriculture and Commerce initiate the use of a cash receipt log and strengthen controls over the Fruit and Vegetable Revolving Fund to ensure duties are properly segregated or alternative compensating controls are implemented.

OTHER CONTROL DEFICIENCIES

Controls over Bank Accounts Should Be Strengthened

Finding:

During testwork performed on bank reconciliations at the Mississippi Department of Agriculture and Commerce - Mississippi Agriculture and Forestry Museum, we noted unexplained differences totaling \$3,316 between the reconciled balance per agency records and the bank statement balance. Agency personnel did not identify and resolve differences, but adjusted agency records to agree with bank records. Good internal controls require reconciling items be investigated for propriety and resolved in a timely manner. Failure to resolve reconciling items noted on the bank reconciliation could allow errors or fraud to occur without being detected promptly.

Recommendation:

We recommend the Mississippi Department of Agriculture and Commerce - Mississippi Agriculture and Forestry Museum strengthen controls over its bank accounts by ensuring reconciling items noted during preparation of the bank reconciliations are explained and resolved in a timely manner.

Collateral Sufficiency Analysis Reports Should Be Reconciled to Agency Records

Finding:

The State Treasury monitors the collateral level for banks holding state deposits. Quarterly, the State Treasury sends each agency a Collateral Sufficiency Analysis report that discloses actual and average daily account balances in total and by account type. The agencies also receive a cover letter with this report that instructs the agency to report any discrepancies in account balances to the State Treasury. Testwork at the Mississippi Department of Agriculture and Commerce revealed that agency personnel did not reconcile the Collateral Sufficiency Analysis reports to bank records on file at the agency.

Good internal controls dictate the agency prepare quarterly reconciliations of the Collateral Sufficiency Analysis report to bank records to ensure account balances on the report are accurate. Failure to reconcile the Collateral Sufficiency Analysis report to bank accounts and report discrepancies to the State Treasury could result in deposits not being properly collateralized.

Recommendation:

We recommend the Mississippi Department of Agriculture and Commerce prepare quarterly reconciliations of the Collateral Sufficiency Analysis reports to banks records to ensure account balances on the report are accurate. We further recommend the agency promptly notify the State Treasury of any discrepancies noted.

INSTANCE OF NONCOMPLIANCE WITH STATE LAWS AND REGULATIONS

Funds Should Be Deposited Promptly and Transferred Timely to the State Treasury

Finding:

During our review of cash receipts at the Mississippi Department Agriculture and Commerce, we noted the following problems.

- A review of ten cash receipts collected by the Mississippi Agriculture and Forestry Museum revealed in four instances the funds were not deposited into the agency's clearing account timely. The range of time from receipt at the agency until deposit to the bank account was from approximately six to nine business days. In addition, we noted eight instances in which funds were not transferred from the agency's clearing account to the state treasury timely. The range of time from deposit of receipts in the clearing account until transfer to the state treasury was from approximately five to 22 business days.
- A review of 31 cash receipts collected by the Mississippi Central Farmers' Market revealed in 11 instances the funds were not deposited into the agency's clearing account timely. The range of time from receipt at the agency until deposit to the bank account was from approximately three to 40 business days. Once these funds were deposited to the clearing account, the funds were promptly transferred to the state treasury.
- A review of 34 cash receipts for the central office revealed three instances in which funds were not transferred from the agency's clearing account to the state treasury timely. The range of time from deposit of receipts in the clearing account until transfer to the state treasury was from approximately eight to 13 business days.

Good internal controls dictate cash receipts are deposited into the agency's clearing account promptly to reduce the likelihood of loss or theft. In addition, Section 7-9-21, Miss. Code Ann. (1972), requires agencies to deposit funds with the state treasury by the end of the next business day following the date the funds are collected. At the request of a state agency, the State Fiscal Officer, with the advice and consent of the State Treasurer, may by regulation provide for other than daily deposits by the agency. The untimely deposit and transfer of funds may result in the loss of investment earnings and increases the risk of theft and/or misplacement of funds while held at the agency.

Recommendation:

We recommend the Mississippi Department Agriculture and Commerce ensure cash receipts are deposited into the agency's clearing account promptly upon receipt and transfers to the State Treasury are made timely in compliance with state law.

Audit Procedures Should Be Performed for the Fruit and Vegetable Revolving Fund in Accordance with State Law

Finding:

The Mississippi Department of Agriculture and Commerce administers the Fruit and Vegetable Revolving Fund. Section 69-2-13, Miss. Code Ann. (1972), requires the Mississippi Department of Agriculture and Commerce to establish control and auditing procedures for the use of these funds. During our review of the Fruit and Vegetable Revolving Fund, we noted the agency had established control and audit procedures; however, testwork revealed the agency had not performed an audit of the fund since June 2004. Failure to execute the control and audit procedures established for the fund could allow errors or fraud to occur without being detected in a timely manner.

Recommendation:

We recommend the Mississippi Department of Agriculture and Commerce strengthen its controls over the Fruit and Vegetable Revolving Fund to ensure audit procedures are performed as required by state law. An audit review of the Fruit and Vegetable Fund should be performed each year to ensure funds are being properly safeguarded and expended.

Bank Accounts Should Be Properly Authorized and Maintained

Finding:

Subsection 29.60.35 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual requires that the State Treasurer and the Department of Finance and Administration authorize all bank accounts maintained by a state agency. In addition, this subsection requires the agency to obtain reauthorization for its bank accounts every two years from the State Treasurer and the Department of Finance and Administration. This subsection further requires interest earned on bank accounts should be deposited into the state general fund unless state statute allows the interest earned to remain with the account. Our review of the bank accounts maintained by the Mississippi Department of Agriculture and Commerce revealed the following problems.

- The Mississippi Department of Agriculture and Commerce had not received reauthorization within two years for its bank accounts. The agency should have obtained reauthorization for its bank accounts in 2006.
- The interest earned on the Agriculture and Forestry Museum bank account was not transferred to the state general fund as required.

Failure to obtain reauthorization of bank accounts from the State Treasurer and the Department of Finance and Administration circumvents the oversight authority vested in these two departments of state government and could allow improprieties to occur without being detected in a timely manner. In addition, retaining interest earned in the bank account could allow the funds to be expended without having the proper authority.

Recommendation:

We recommend the Mississippi Department of Agriculture and Commerce ensure all bank accounts are initially authorized and subsequently reauthorized every two years by the State Treasurer and the Department of Finance and Administration as required by Subsection 29.60.35 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual. We further recommend the agency transfer the interest earned on the Agriculture and Forestry Museum bank account to the state general fund.

End of Report